

Message Text

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SUBJECT: U.S. EXPORTS PERFORMANCE IN CHILE - 1977

1. SUMMARY. DURING A PERIOD WHEN GOC ECONOMIC POLICIES HAVE MADE CHILE ONE OF THE WORLDS FASTEST GROWING IMPORT MARKETS, THE UNITED STATES WAS NOT A BENEFICIARY OF CHILEAN IMPORT GROWTH. THIS TELEGRAM POINTS OUT THE RELATIVE AND REAL DECLINE IN TOTAL U.S. EXPORTS TO CHILE IN 1977, AND, BASED ON PARTIAL DATA ONLY, SUGGESTS SOME OF THE REASONS FOR OUR LOSSES IN THE MARKET. END SUMMARY.

2. AS A DELIBERATE GOC POLICY MEASURE, STIMULATED BY CONTINUED TARIFF REDUCTIONS, 1977 WAS CHILE'S GROWTH YEAR IN IMPORTS, FROM AN ESTIMATED \$ 1,581 MILLION IN 1976 TO \$ 2,297 MILLION, OR AN INCREASE OF 45 PERCENT. THE NEW BUSINESS, HOWEVER, WENT ELSEWHERE, NOT TO THE UNITED STATES. (DETAILED CHILEAN IMPORT STATISTICS ARE NOT YET AVAILABLE, BUT WE WILL EXPECT JAPAN TO SHOW THE MAJOR 1977 SALES EXPANSION IN THE CHILEAN MARKET.)

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3. WHILE U.S. EXPORTS TO CHILE GREW BY \$ 12 MILLION IN 1977 ACCORDING TO U.S. FIGURES, FROM \$ 508 MILLION TO \$ 520 MILLION, THIS REPRESENTS A NOMINAL GROWTH OF LESS THAN 2 1/2 PERCENT. CONSIDERING A U.S. INFLATION RATE OF 6.1 PERCENT, HOWEVER, U.S. EXPORTS TO CHILE IN REAL TERMS DECLINED BY 3.5 PERCENT. MIXING U.S. EXPORT STATISTICS WITH ESTIMATED CHILEAN IMPORT VALUE SUGGESTS A STAGGERING ONE YEAR

DROP IN U.S. MARKET SHARE FROM 32.1 PERCENT IN 1976 TO ABOUT 22.6 PERCENT IN 1977.

4. WITH ONLY SPARSE DATA AVAILABLE FOR ANALYSIS, WE CAN SUGGEST THE FOLLOWING CAUSES OR INFLUENCING FACTORS TO EXPLAIN THE POOR U.S. EXPORT PERFORMANCE TO CHILE IN 1977.

A. AGRICULTURAL EXPORTS HAVE TRADITIONALLY ACCOUNTED FOR AN IMPORTANT SHARE OF U.S. EXPORTS TO CHILE. SALES OF AMERICAN AGRICULTURAL PRODUCTS DROPPED BY ONE-THIRD IN 1977, FROM \$ 120 MILLION TO \$ 80 MILLION, WHILE TOTAL CHILEAN AGRICULTURAL IMPORTS INCREASED SLIGHTLY FROM \$ 319 MILLION TO \$ 323 MILLION.

B. IN 1977 JAPANESE AUTOMOBILES FLOODED THE MARKET. CHILEAN CAR IMPORT LICENSES ROSE A SPECULACULAR 105 PERCENT, FROM \$ 52.4 MILLION IN 1976 TO \$ 107.3 MILLION IN 1977. SMALL JAPANESE MODELS GAINED MOST OF THIS MARKET, DUE PRIMARILY TO PRICES THAT WERE LOW ENOUGH TO ENTER CHILE WITHOUT BEING SUBJECT TO 100 PERCENT IMPORT SURCHARGES OVER AND ABOVE THE 115 PERCENT TARIFF.

C. NO NEW EXIMBANK CREDITS, IN CONTRAST TO \$ 346 MILLION IN TRADE CREDITS MADE AVAILABLE TO CHILE BY OTHER GOVERNMENTS IN 1977.
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D. THE U.S. EMBARGO ON SALES OF MUNITIONS LIST ITEMS, WHICH INCLUDE SALES FOR PURELY NON-MILITARY APPLICATIONS TO NON-MILITARY USERS.

5. TWO SEPARATE ITEMS REQUIRE A FOOTNOTE. THE FEW EXAMPLES OF LOST SALES OF MUNITIONS LIST ITEMS FOR CIVILIAN USE, OF WHICH WE ARE AWARE, DO NOT TOTAL BIG MONEY. SOME ARE DENIED. OTHERS ARE NOT EVEN ATTEMPTED. THEY NEVER- THE LESS HAVE A WARNING EFFECT ON OTHER IMPORTERS WHO MAY HENCEFORTH PREFER TO SOURCE IN OTHER COUNTRIES. IN ADDITION, WE HAVE BEEN TOLD BY ONE AMERICAN SELLER OF POWER GENERATING EQUIPMENT THAT ITS PROPOSAL ON A \$ 20 - 30 MILLION INSTALLATION, IF MADE AT ALL WITHOUT EXIM PARTICIPATION, WILL HAVE TO BE SKEWED TOWARD THIRD-COUNTRY SOURCING IN ORDER TO BE COMPETITIVE ON FINANCING TERMS.

6. WE CANNOT QUANTIFY OR EVEN ESTIMATE U.S. SALES LOST IN CHILE IN 1977 AS A RESULT OF THE RESTRAINTS POINTED OUT IN C AND D OF PARA 4 EXCEPT TO CONCLUDE THAT TRADE PATTERN SHIFTS WILL ACCELERATE OVER TIME THE LONGER U.S. INDUSTRY IS OUT OF THE MARKET AS A SUPPLIER OF CERTAIN

GOODS OR NON-COMPETITIVE IN FINANCING FOR SOME LARGE PURCHASES.
AS NEW CHILEAN SUPPLIER RELATIONSHIPS MOVE TOWARD THIRD
COUNTRIES, POTENTIAL U.S. SALES MAY BE LOST FOR YEARS TO
COME.
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